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RUEHMO/AMEMBASSY MOSCOW 5991
RUEHNY/AMEMBASSY OSLO 1550
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RUEHSM/AMEMBASSY STOCKHOLM 1562
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RUEHBS/USEU BRUSSELS 2116
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RUEHAM/AMEMBASSY AMMAN 1024
RUEHNV/AMEMBASSY MONROVIA 7302
RUEHBW/AMEMBASSY BELGRADE 0871
RUEHFN/AMEMBASSY FREETOWN 0491
RUEHBZ/AMEMBASSY BRAZZAVILLE 0060
RUEHRY/AMEMBASSY CONAKRY 1085
RUEHPOD/AMEMBASSY PODGORICA 0054
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SENSITIVE
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STATE FOR EB/IFD/OMA
TREASURY FOR DO/IDD AND OUSED/IMF
SECDEF FOR USDP/DSAA
PASS EXIM FOR CLAIMS -- EDELARIVA
PASS USDA FOR CCC -- ALEUNG/DERICKSON/KCHADWICK
PASS USAID FOR CLAIMS
PASS DOD FOR DSCS -- PBERG

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SUBJECT: PARIS CLUB - OCTOBER 2007 REPORTING CABLE

¶1. (SBU) Summary: On October 17, the Paris Club agreed to accept a buyback of previously rescheduled Jordanian debt at an average discount of 11 percent off face value. This figure is significantly above the 5-7% figure that the Paris Club Secretariat initially estimated to be a fair market discount. The U.S. announced that it intended to seek statutory authority to participate. The U.S. did not sign the agreement, in large part due to our continued opposition to the use of "comparability of treatment" clauses in buyback agreements, but instead provided a side letter stating our intention to participate once we received authorization. At the tour d'horizon on October 18, the Club reviewed relations with Angola, the Central African Republic, the Republic of Congo, the Democratic Republic of Congo, Guinea (which may be eligible for debt relief as soon as December), Iraq, Liberia, and Serbia/Montenegro/Kosovo.

Angola

¶2. (SBU) Angola appears close to making a proposal to address late interest owed to the Paris Club. Finance Minister de Moraes told Paris Club Chairman Musca that Angola is considering paying a substantial portion of its \$2.2 billion in late interest due,

provided that creditors allow Angola to make the payment in two to four installments (perhaps over three to four years) rather than up front. Angola is also looking for creditors to stop the late interest charges from accruing further and to remove the penalty interest rate component from the late interest calculation. There would be an expectation that the Paris Club would no longer ask its members' export credit agencies (ECAs) to remain off cover in Angola, and that some ECAs might have the flexibility to go back on cover even before arrears and late interest are completely cleared. However, Angola would formally remain "in arrears" until all arrears are cleared. The Secretariat said the Angolan government could make an offer before the November Paris Club session.

Central African Republic

13. (U) The Secretariat distributed draft agreed minutes for CAR's HIPC Decision Point treatment, to be sent to the authorities by mail. The U.S. said it needed more time to complete internal procedures before it could approve the agreed minutes. The IMF noted that creditors representing just 68% of CAR's eligible debt had provided financing assurances, short of the 70% threshold necessary for the Fund to disburse interim HIPC assistance.

Congo-Brazzaville

14. (SBU) The Congolese authorities told the IMF that they had not contracted any new non-concessional loans, but had made contacts with China and were considering new borrowing to finance infrastructure projects. Separately, the IMF reported major fiscal slippages under the Staff-monitored Program (SMP). With no

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immediate prospect for a new Poverty Reduction and Growth Facility (PRGF) program, creditors will need to decide whether to let Congo-B's current Paris Club agreement (on Cologne terms) expire, and agreed to take stock in November.

Democratic Republic of Congo

15. (SBU) The IMF said the DRC's performance under its SMP has been broadly satisfactory, and that a new PRGF could be in place in early 2008. If all goes well, the DRC could reach Completion Point at the time of the IMF Executive Board's first review of the PRGF in the second half of 2008. The IMF reported that the authorities had signed a \$5 billion "protocol" with China, of which \$2 billion is for the development of copper mines and \$3 billion for infrastructure projects. The authorities claim the deal does not involve new debt; the IMF said the details are not clear. Staff told the authorities that new non-concessional debt would complicate discussions on a new PRGF. Creditors supported sending a letter to the authorities expressing concern about possible new non-concessional borrowing. However they agreed to postpone sending the letter until after the IMF-World Bank annual meetings in October 2007, in case new information comes to light. The Netherlands and Italy commented that the Paris Club needs to restart efforts to engage China.

Guinea

16. (U) The IMF said Guinea was making progress toward a new PRGF. The IMF is planning to ask for financing assurances in November, and negotiations on the resumption of interim HIPC relief could take place in December or January. Russia reported significant arrears and asked whether Guinea was in a position to clear them. The IMF said probably not, given that the country's foreign exchange reserves were equal to just two weeks of imports.

Iraq

17. (SBU) Russia said the recent change in government in Moscow has slowed the process of concluding a bilateral agreement with Iraq to

implement the terms of the 2004 Paris Club agreement. The Russian ministry of finance hoped that the bilateral could be signed by the end of the year, but the Russian delegate had no specific information. The Secretariat asked the Russian delegate to communicate to Moscow the Club's impatience. The Secretariat further noted that the deadline for concluding bilateral agreements was February 2006, and that one of the principles of the Paris Club was to not tie debt relief to other conditions.

Jordan

¶8. (SBU) Creditors concluded an agreement with Jordan that will

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allow Jordan to buy back its previously rescheduled non-ODA debt at an average discount to face value of 11%. France, the United Kingdom, the United States, Spain, Italy, Switzerland, Germany, and Belgium indicated their intention to participate. (Privately, Canada told us it would also participate.) Together, these countries account for \$2.2 billion of the \$2.5 billion in eligible debt. The United States' participation will require Congressional authorization. Japan announced that it would not participate, citing a domestic law that prevents it from selling claims at less than face value to countries that are not in debt distress.

¶9. (SBU) The Secretariat, in its presentation to Paris Club creditors, noted that interest rates for emerging markets had fallen in recent weeks, implying a lower market-based discount than it had previously recommended. Interest rate spreads above risk-free debt for countries rated BB (similar to Jordan) were trading between 100-150 basis points above the risk-free rate, corresponding to a discount to face value between 2% and 5%.

¶10. (SBU) Creditors supported the Secretariat's analysis while indicating that they had flexibility to accept a somewhat higher discount. After several rounds of negotiations lasting into the early morning, Jordan accepted the Paris Club's final offer of 11 percent, which corresponded to a spread of 282 basis points over risk-free "swap" rates -- around twice the Secretariat's initial recommendation. The U.S. did not sign the agreement, but instead provided a side letter (see para 13) indicating support for the operation and its plans to seek legislative authority to participate.

Liberia

¶11. (SBU) The IMF said a financing shortfall remains for clearing Liberia's arrears to the international financial institutions (IFIs). The United States, Norway and Germany urged other countries to help close the gap. The Netherlands continued to question whether Liberia had a strategy in place to deal with its private creditors, especially litigating creditors. The IMF and the World Bank discussed the possibility of using the International Development Association's (IDA) Debt Reduction Facility to address the private sector debt. Both the World Bank and the Secretariat flagged the tension between the Paris Club requirement of comparable treatment by all creditors and the possibility that offering a higher price to private creditors might help prevent litigation costs from undermining the benefits of debt reduction. (The "common reduction factor" -- the amount of cancellation necessary to bring Liberia's debt to a "sustainable level", and the figure that will be part of the Paris Club agreement -- is a very high 97 percent.) The Secretariat confirmed that if, as expected, Liberia reaches HIPC

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Decision Point around the time the PRGF is approved, the Paris Club will provide a flow treatment on Cologne terms (thus bypassing a Naples treatment). Given Liberia's large arrears, a Cologne flow treatment will result in significant stock cancellation. Short-term and post-cutoff debt will likely have to be deferred and moratorium

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interest capitalized. The World Bank noted that while it will have provided the bulk of its HIPC relief commitments at Decision Point, it does intend to provide grants to Liberia during the interim relief period to help Liberia service its World Bank debts.

Serbia/Montenegro/Kosovo

¶12. (SBU) Serbian Deputy Prime Minister Djelic told Paris Club Chairman Musca that Serbia intends to stop servicing debt owed by Kosovo if final status talks result in Kosovo's independence. Djelic asked Musca to ask the EU-US-Russia Troika to facilitate the debt reconciliation process, so that Serbia can determine which debts to allocate to Kosovo. The Secretariat, noting that Kosovo has little debt service capacity, said creditors might wish to consider either not invoicing or perhaps granting Kosovo a deferral similar to what creditors provided to countries affected by the Asian tsunami. The Netherlands, supported by Japan, said it was premature to discuss any such treatment. If Serbia discontinues debt service before it has concluded new bilateral agreements with its creditors, it will be in default. In addition, the Netherlands expressed concern that Serbia will be tempted to dump most of its debt on Kosovo. To prevent this outcome, bilateral agreements must reflect an apportionment of the debt according to the debtor/guarantor principle rather than the final beneficiary principle preferred by the Serbians. The Secretariat responded that it would be politically difficult to insist that Serbia continue to service Kosovo's debt after final status, and noted that the Ahtisaari report recommended dividing debt on the beneficiary principle, but provided for other arrangements if mutually agreed. Rather than allow Serbia to dictate the reconciliation process based on its own debt figures, the Secretariat urged creditors to provide loan documentation to both Belgrade and Pristina. The Secretariat will draft a letter to the Troika requesting that it facilitate the debt reconciliation process. The Netherlands, Sweden, and Switzerland complained that Serbia and Montenegro still had not concluded new bilateral agreements apportioning Serbian and Montenegrin debt according to the debtor/guarantor principle. The Secretariat said it stood ready to send a letter to the authorities

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in Belgrade and Podgorica.

Comparability of treatment

¶13. (SBU) There was no resolution to the comparability of treatment controversy. In the end, the Jordan buyback agreement (which the U.S. did not sign) contained the same comparability of treatment clause that was included in the July 2007 Gabon buyback agreement (supplemented by an internal Paris Club "Chairman's summary") stating that no consensus could be reached and that use of the Gabon clause a second time did not constitute a precedent. The Chairman's summary went on to list various criteria by which "those creditors having signed the agreement with Jordan" (e.g., not the United States or several other countries that did not sign because they are not creditors) would assess a future early repayment offer by

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Jordan. The United States reiterated its objection to the notion that future early repayment offers must be approved by consensus.

PEKALA